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Federal Reserve Notes

FEDERAL RESERVE BANK OF SAN FRANCISCO • July 1981

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FEDERAL COURT BLOCKS DIDC CEILING-RATE PLAN

The U.S. District Court in Washington, D.C., has issued an order against the Depository Institutions Deregulations Committee to block the phase-out of interest-rate ceilings on new deposits with a maturity of four years or more.

The Federal court decision was announced on July 31, a day before the ceiling-rate revision was scheduled to take effect. At its June 25 meeting, the DIDC set a four-year phase-out schedule for interest-rate ceilings that was scheduled to begin with the removal of limits on deposits of maturities of four years or more.

Bringing suit against the DIDC was the U.S. League of Savings Associations. It argued that the higher rates on these certificates would contribute to greater financial losses among thrift institutions.

Pending further action by DIDC, the ceiling rates on these deposits of four years or more remain unchanged. They are:

For commercial banks—Deposits with maturities of 4 to 6 years, 7¼ percent; 6-8 years, 7½ percent; 8 years or more, 7¾ percent. Thrift institutions are allowed to pay a higher differential of 25 basis points in each category.

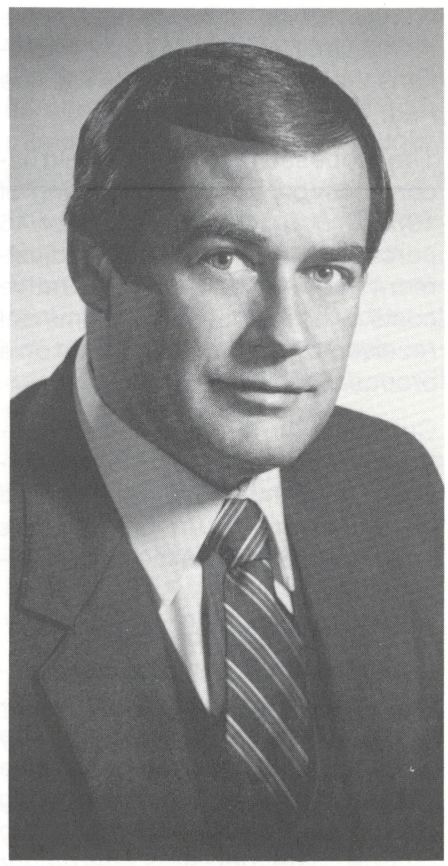
Unaffected by the Federal court order was the lifting of the interest rate for banks and thrifts on maturities of 2½ years (known as small-saver certificates) to less than 4 years. On August 1, the rates became 14.90 percent for commercial banks and 15.15 percent for thrifts —being tied (without a cap) to the rate on Treasury securities of comparable maturity. And on August 4, these figures changed to 15.52 percent and 15.80 percent, respectively.

GRIFFITH REJOINS SAN FRANCISCO FED

Richard T. Griffith has rejoined the Federal Reserve Bank of San Francisco in a new position as senior vice president in charge of District operations.

Griffith has assumed senior-officer responsibility for the Bank's operational services at its San Francisco, Los Angeles, Portland, Salt Lake City and Seattle offices. He also is reponsible for administration of the Bank's new Financial Services department, formed in June to develop, price and market Federal Reserve operating services being offered to financial institutions under the Monetary Control Act of 1980. In addition, Griffith will serve on the Reserve Bank's Management Committee, the Bank's top policy-making body.

Griffith has extensive experience in both commercial and Federal Reserve bank operations. Before joining the Fed, he held several managerial positions in data processing, computer systems, bank operations and other phases of corporate banking at Crocker National Bank, and was executive vice president of the banking division of Teknekron, Inc., headquartered in Berkeley.



R. T. Griffith

After first joining the San Francisco Fed in 1975, Griffith served as vice president of computer services, senior vice president of the computer services group and senior vice president of operations. Following his last tour of duty with the San Francisco Fed, he joined Burns International Security in 1979 as group vice president and chief operating officer of the western region.

He attended Pepperdine College and California State College (San Luis Obispo), as well as the Sloan Graduate School of Business at Stanford.

FED PROPOSES FEES FOR CASH TRANSPORTATION

A revised fee schedule has been proposed by the Federal Reserve Board of Governors for its cash transportation services in supplying currency and coin to the nation's depository institutions.

Comment on the fee proposals is being sought by September 25. The Monetary Control Act of 1980 requires the Federal Reserve to charge for its services and make them available to all financial institutions that maintain reserves with the Fed.

The proposed fees, which would become effective at the beginning of 1982, incorporate a markup of 16 percent as a private-sector adjustment to the Fed's administrative costs. They also reflect comment received by the Reserve Board on a proposal published last August.

Currently, the Federal Reserve offers free cash-transportation services to member banks. The Fed does not own any armored carriers but, rather, contracts the work to private firms.

Fees Announced

Under the latest proposal, depository institutions in most Federal Reserve Districts, including the Twelfth, would pay a fee based on a volume charge of 50 cents per bag of coin or currency plus a per-stop charge. The per-stop charge for each delivery zone reflects such factors as volume, frequency of stops en route, method of deposit, distance traveled, roadway access and the type of available loading facility (see table).

The Board has proposed a $75 ceiling on the per-stop charge for 1982 and possibly 1983. However, this ceiling charge will be reviewed at the end of 1982. Meanwhile, any cash-transportation costs above that limit would be absorbed by the Fed system.

In the Twelfth District a single all-inclusive fee will be charged each financial institution in the home-city zone (Zone 1). Financial institutions outside of Zone 1 will be charged separate per-stop and bag charges.

ARMORED CARRIER FEE SCHEDULE

Federal Reserve Office	Per-stop Charge (in dollars)				
San Francisco					
Zones 1-5	**	11	76*	24	14
Zones 6-10	9	11	9	23	16
Zone 11	12				
Los Angeles					
Zones 1-5	**	18	13	16	15
Zones 6-10	14	17	17	16	14
Zones 11-15	12	20	12	12	20
Zones 16-20	24	93*	171*	63	29
Salt Lake City					
Zones 1-5	**	20	8	13	47
Zones 6-8	33	28	65		
Portland					
Zones 1-5	**	28	34	12	45
Zones 6-8	43	12	51		
Seattle					
Zones 1-5	**	22	34	13	8
Zones 6-9	10	23	12	35	

* Current full cost of service to endpoints in this zone. The proposed maximum 1982 per-stop charge would be $75 instead of the figure shown

** Specific fees will apply to each institution in Zone 1

Recover Costs

"These (proposed) charges reflect the current market rates for providing armored-carrier service to these institutions," said Douglas O. Knudsen, assistant vice president of Cash at the San Francisco Fed. "It is up to the Fed to find the cheapest means to furnish coin and currency to all financial institutions. I figure it will take two years to phase-in this service equitably to everyone."

By the end of the two-year period, the Federal Reserve intends to recover all costs of armored carrier service, subject to the Federal Reserve's responsibility to provide a minimum level of service nationwide. During the two-year interim, a variety of methods for reducing transportation costs to high-cost locations will be explored, such as

(Continued on page 4)

VOLCKER POLICY REPORT AVAILABLE

Federal Reserve Chairman Paul Volcker, in a semi-annual policy report, told Congress on July 21 that the Fed's anti-inflation policy "requires gradual reduction over time in the expansion of money and credit to rates consistent with sustainable growth in output at reasonably stable prices."

Volcker said that he saw encouraging signs of a deceleration in various price indexes. But he added that inflationary forces are still well entrenched, and that the Federal Reserve must remain firmly committed to a policy of monetary restraint.

He pointed out in his report that the M-1B measure of the money supply—currency plus transaction (check-type) accounts—decelerated slightly in each of the past two years, and that it is now near or even below the bottom of its target range for 1981. The range is 3½ to 6 percent, after adjustment for shifts of savings into check-like NOW accounts. But the broader M-2 measure—primarily currency plus all depository-institution deposits (except large CDs) and money-market fund shares—has been running near the top of its 6-to-9 percent target range this year, although below last year's actual growth.

For the remainder of 1981, according to Volcker's testimony, the Federal Reserve believes that it would be acceptable to hold M-1B growth near the bottom of its range, and to hold M-2 growth near the top of its range. For 1982, the Fed tentatively has reduced its projected growth range for M-1B, to between 2½ and 5½ percent, while maintaining a 6-to-9 percent range for M-2.

Copies are now available of the Volcker report, *Monetary Policy Objectives for 1981—Midyear Review*. Free copies can be obtained by calling or writing the Public Information Section, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, 94120. Phone (415) 544-2184.

SECURITIES SERVICES AVAILABLE OCTOBER 1

The Federal Reserve Board has adopted a fee schedule for securities and for noncash collection services provided by the Federal Reserve banks.

According to the Congressional mandate in the Monetary Control Act of 1980, these services have been priced and will be available to all depository institutions October 1. The fees have been revised from proposals published last summer to reflect 1981 costs plus a 16-percent markup as the adjustment to private-sector rates.

The securities services fall into three categories—book-entry and definitive securities safekeeping; purchase and sale of government securities; and noncash collection services.

The book-entry securities service involves recording of ownership of securities by computer rather than issuance of definitive paper securities to buyers. A depository institution may establish several types of book-entry accounts (e.g. a general account, an investment account, a trust account or a dealer account) with its local Federal Reserve office.

Standard national fees will be assessed for processing security transfers affecting book-entry accounts and maintaining these accounts (see table). The fees will be applied to security transfers originated on-line and off-line, or to those received off-line. There will be no charge for transfers received on-line. On-line security transfers are wire transfers of book-entry securities originated by a depository institution with direct access to its account at a Federal Reserve office. Off-line transfers are transmitted by Federal Reserve personnel acting on authenticated requests from depository institutions. Transfers received off-line include intra- and inter-district security transfers destined for institutions that have not established on-line communications links with the Fed.

The $3 fee now assessed on behalf of the U.S. Treasury and various Federal agencies for inter-district transfers of book-entry securities will be discontinued when the new fee schedule goes into effect.

The book-entry account maintenance fee reflects the cost associated with establishing accounts, maintaining account instructions, maintaining records reflecting book-entry holdings, reconciling accounts, notifying account holders of maturing securities and providing periodic statements of account holdings.

Fees will be assessed for the purchase and sale of government securities which cover the costs for receiving requests from depository institutions and placing orders in the secondary securities market. The per-transaction fee for this type of service will be $22 plus broker's fees, if applicable, in the nine western states (12th District) served by the Federal Reserve Bank of San Francisco.

A fee also will be charged by the collecting Federal Reserve bank for coupons sent to another District Bank for collection. In this case, full costs for the collection service will be recovered by charging the fee of the collecting Reserve bank. For coupons payable in the Twelfth District and deposited at any office of the Federal Reserve Bank of San Francisco, this cost will be $6.85 per envelope or item processed. In addition, a shipping fee based on the dollar value of the coupons being collected will be charged. This fee varies at each Federal Reserve District, depending on actual cost. For bonds and other noncash items, the per item fee of $6.50 will be applied, plus any out-of-pocket expenses such as costs which might be incurred in the collection of the item.

Regarding definitive securities safekeeping, the Twelfth Federal Reserve District limits this service to certain special collateral accounts. Further information regarding the securities and noncash collection services offered by the Fed can be obtained by contacting the Fiscal department at the Federal Reserve Bank of San Francisco.

FEE SCHEDULE
BOOK-ENTRY SECURITIES SERVICES
(Effective October 1)

Security Transfers:		
Originated On-Line	per transaction	$2.00
Originated Off-Line	per transaction	8.50*
Received Off-Line	per transaction	6.50
Account Maintenance	per account per month	6.00

* Composed of the on-line origination fee of $2.00 plus the $6.50 off-line surcharge.

NEW PENNY COMING

A new, lighter-weight coin containing more zinc will soon replace the "copper penny."

The United States Mint has announced plans to begin producing the new cent pieces in December and distributing them to the nation's financial institutions through the Federal Reserve banks during 1982.

A spokesman for the Mint said the new copper-plated zinc pennies would save about $25 million a year. Estimated cost of the new coin will be about six-tenths of a cent compared to the present cost of roughly eight-tenths of a cent.

The penny is now composed of 95-percent copper and 5-percent zinc. The new coin will contain 97.6-percent zinc and 2.4-percent copper. It will be identical in size and appearance to present pennies but will weigh 19 percent less.

The Ball Corporation of Tennessee has been awarded an $8.7 million one-year contract to supply 3.76 billion copper-plated zinc blanks for the new U.S. penny. Ball will produce 20.8 million pounds of blanks.

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Phone (415) 544-2184

Federal Reserve Bank of San Francisco
400 Sansome St, San Francisco, CA 94120

FEES PROPOSED

(Continued from page 2)

encouragement of increased competition, establishment of cash depots and support for currency exchanges.

Separate fees also will be established for institutions with specialized high-volume arrangements, such as direct shipments from the Bureau of Engraving and Printing or armored-carrier service to a large volume endpoint with circumstances of difficult access. Reduced transportation charges may be available for depository institutions that deposit currency sorted by quality or suitably packaged for high-speed processing, or that accept containerized shipments where the significant reduction in Reserve Bank processing costs justifies a reduction in transportation charges.

Mail Fee Set

Registered mail also is used to ship and accept currency and coin from Alaska, Hawaii, America Samoa, Guam and other outlying mainland areas of the Twelfth District. The proposed fee for this type of shipment would be limited to $37.50 for one-way mail service in 1982.

In connection with the revised fee schedule for cash transportation the Federal Reserve Board developed a policy regarding access by depository institutions to the Fed's currency processing, sorting, cancelling and destruction operations which are not priced. By the end of 1983, all Federal Reserve offices would offer minimum access to:

- one office of a depository institution per municipality (subject to adjustment for special circumstances) or
- one office per institution.

FED SIMPLIFYING MARGIN REGULATIONS

As another step in simplification of Federal Reserve regulations, the Federal Reserve Board is seeking comment by September 15 on proposed revisions of its margin regulations.

Affected are Regulations G, T and U. Wherever possible, the Board hopes to reduce the burden of compliance by rewriting the regulations.

The following proposals have been made regarding Regulation G (Margin Credit Extended by Parties Other than Banks, Brokers and Dealers), Regulation T (Margin Credit Extended by Brokers and Dealers) and Regulation U (Margin Credit Extended by Banks).

Reg G—Broaden the types of credit which may be extended by lenders subject to that regulation, chiefly insurance companies and credit unions.

Regs G and U—Redefine "indirectly secured" margin loans to achieve more objective standards. This would affect principally lending arrangements, by banks and insurance companies with corporate borrowers, that contain restrictions on disposition of the borrower's assets.

Reg T—Eliminate "equity building" devices, consolidate bond accounts with the General Account and require, in certain instances, an offsetting adjustment to any highly leveraged General Account by transfers from the customer's special miscellaneous account; relax the restriction on the arranging of credit by investment bankers to permit investment banking services that may otherwise be prohibited; reduce the number of types of accounts subject to Reg T from 11 to 7 (four to be used for public customer transactions and three for transactions between industry members); prescribe the amount of margin required rather than the maximum loan value of securities used as collateral.

Reg U—Change the collateral test to exempt from quantitative limitation all bank credit not secured by margin equity securities. (Presently, a purpose loan that is collateralized by any stock is subject to the margin regulation).